# Value without Employment

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# Discussion points

1. NETS data limitations

2. Compustat patterns

3. (won't cover) Theory considerations

# 1. NETS data

- NETS data have a number of limitations, particularly acute for dynamics and young firm measurement
- Barnatchez, Crane, & Decker (2017) show that NETS geography-by-industry establishment tabulations are reasonably correlated with CBP (Census) and QCEW (BLS) in the cross section, but:
  - Weak tracking of key industry patterns of the 2000s (manufacturing, mining, construction)
  - Time-varying coverage of the business universe, especially in the 2000s
  - High imputation rates among small establishments
- Crane and Decker (2019):
  - Weak coverage of business dynamics, especially among young firms
  - Prevalent imputation of dynamics, including long patterns of consecutive imputation spells

# NETS business universe

- Dynamism literature studies employer universe from Census Business Register

- What business universe does NETS cover?
  - Too big to be the employer universe
  - Too small to be the total universe
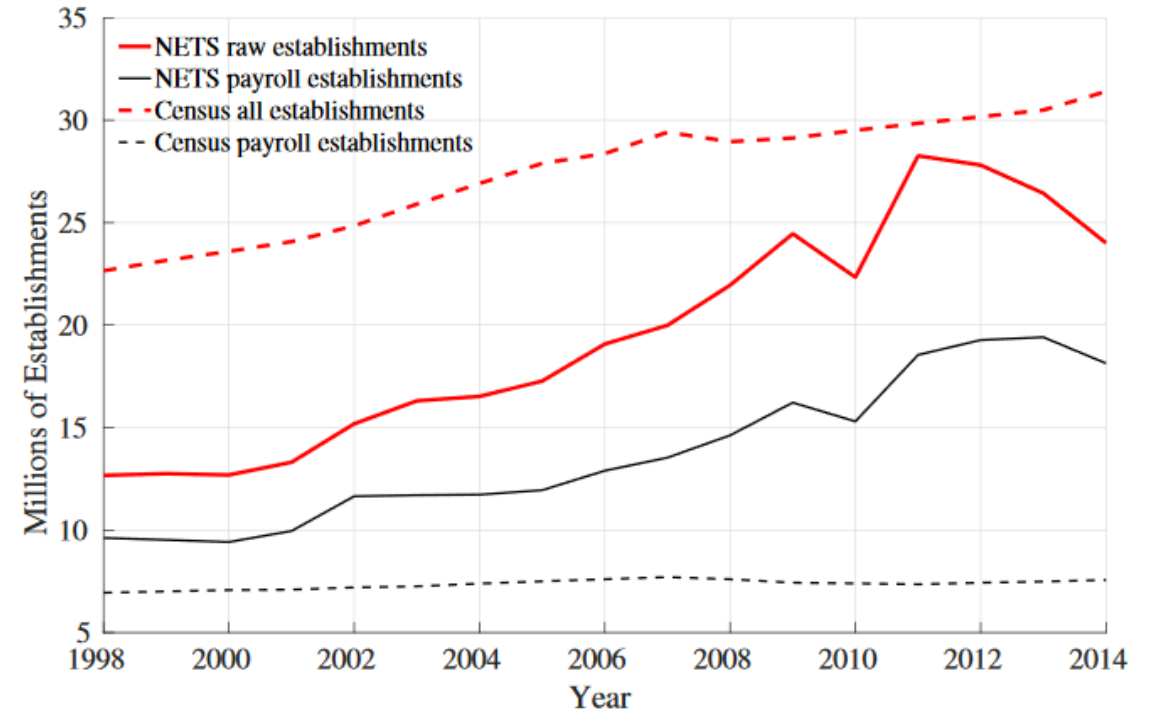


Source: NETS database, County Business Patterns, Census Nonemployer Statistics.
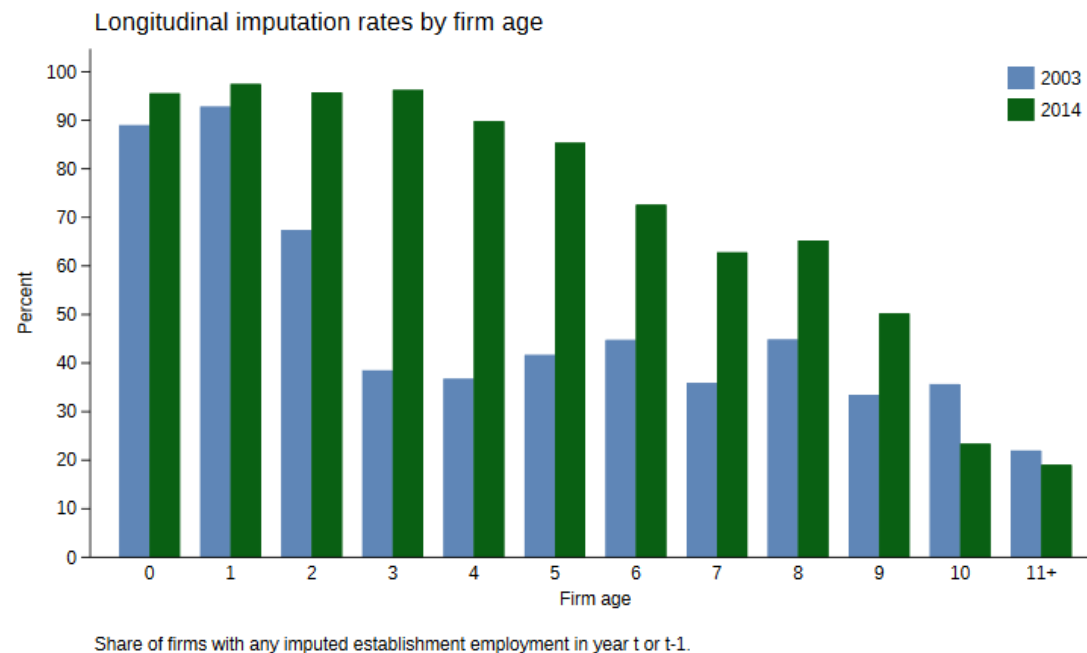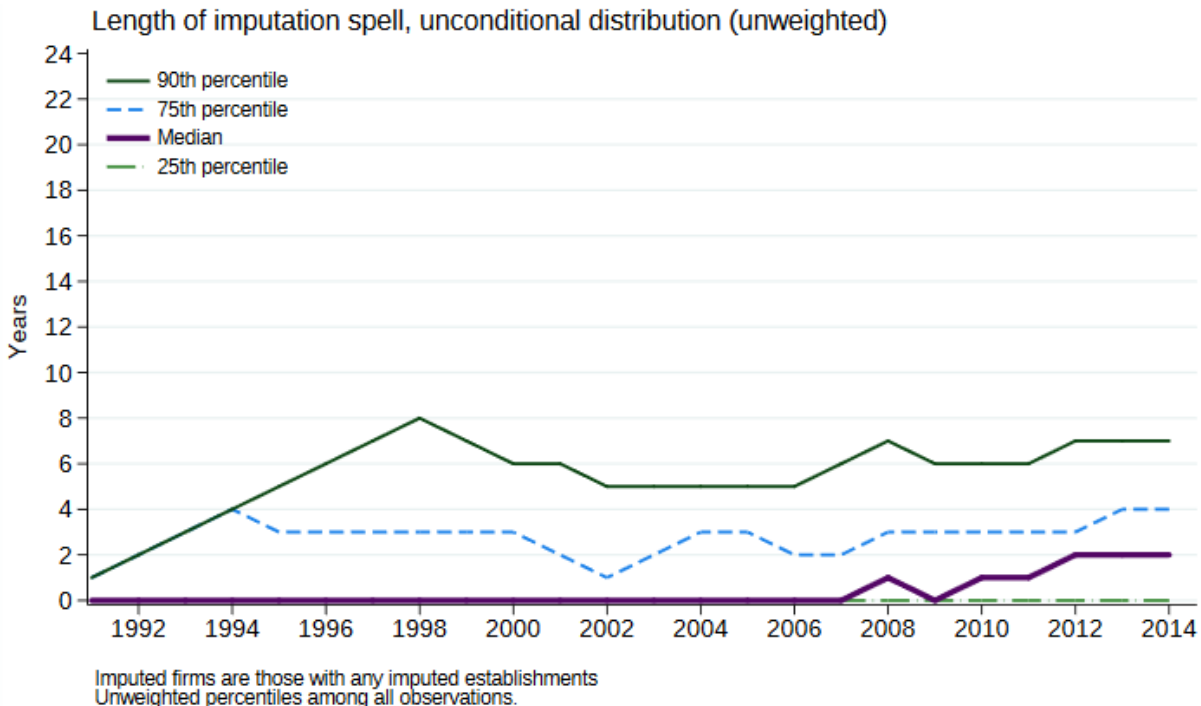Note: NETS sample restricted to CBP industry scope.

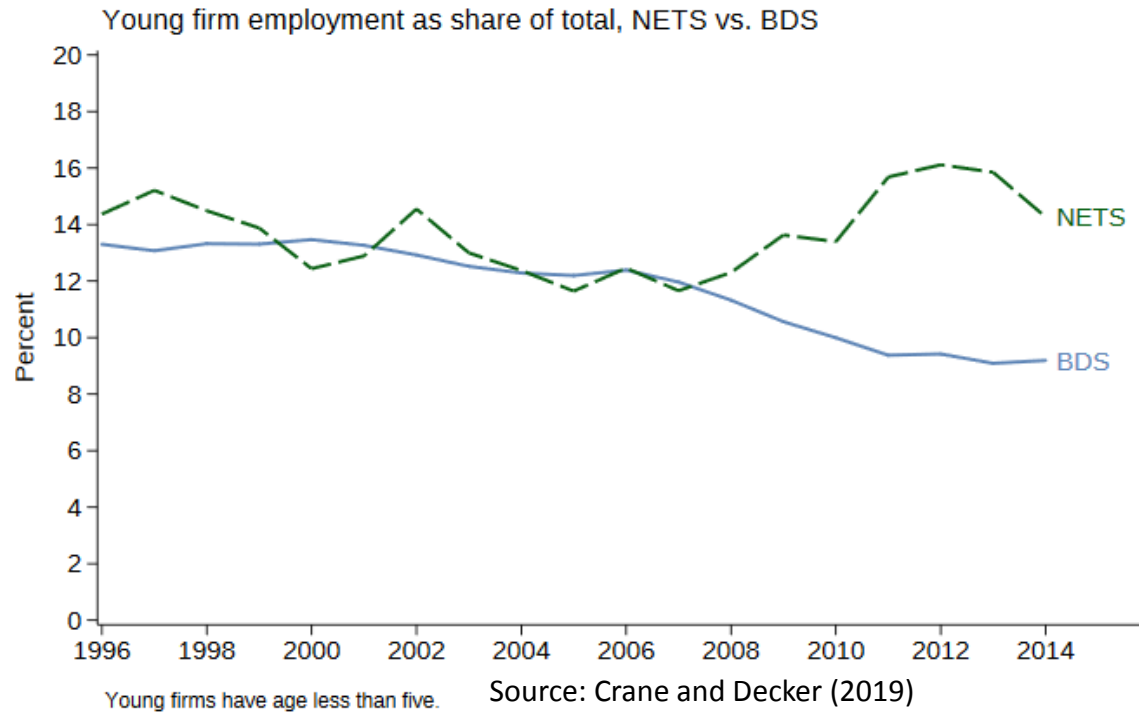Source: Barnatchez, Crane, & Decker 2017

# NETS imputation

- Many NETS establishments see imputation for many consecutive years
  - 10% of firms are imputed for 6+ consecutive years (more if weighted)
  - Among imputed firms, median has 3-4 consecutive years
- Imputation is especially prevalent among young firms

Source: Crane and Decker (2019)



Length of imputation spell, unconditional distribution (unweighted)

- 90th percentile
- 75th percentile
- Median
- 25th percentile

Imputed firms are those with any imputed establishments
Unweighted percentiles among all observations.



Longitudinal imputation rates by firm age

Share of firms with any imputed establishment employment in year t or t-1.

# NETS: Young firms



Young firm employment as share of total, NETS vs. BDS

Young firms have age less than five.

Source: Crane and Decker (2019)



Up or out dynamics for young firms, LBD

Source: Decker et al. 2014

LBD

Job destruction from exiting firms
Net job creation of continuing firms



Up or out dynamics for young firms, NETS

NETS

Job destruction from exiting firms
Net job creation of continuing firms
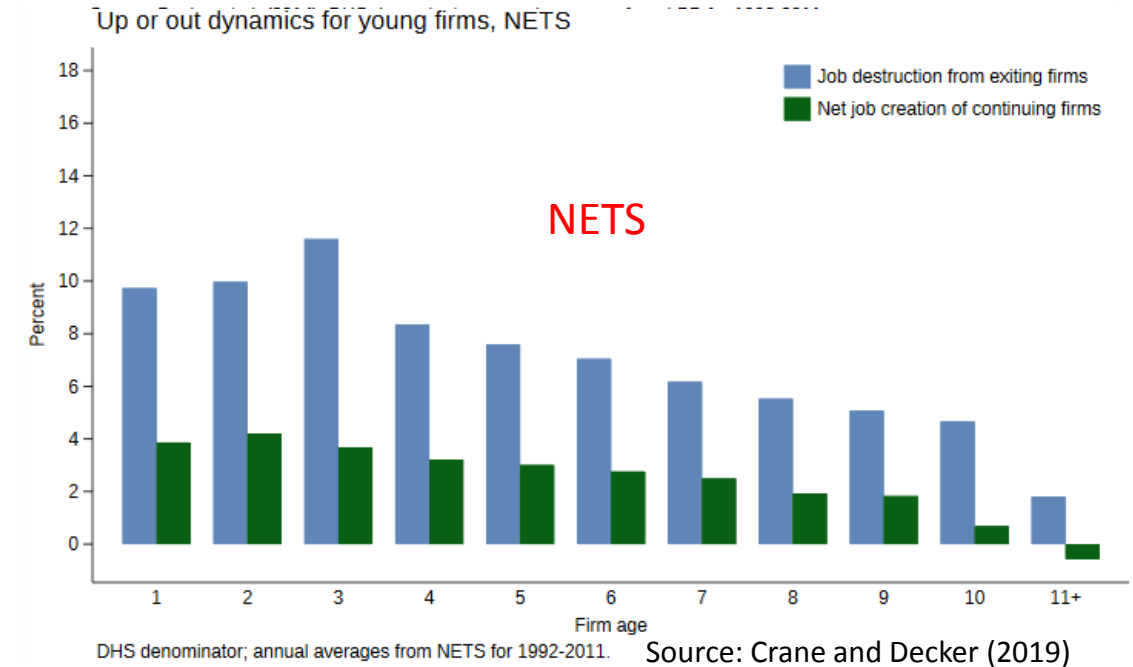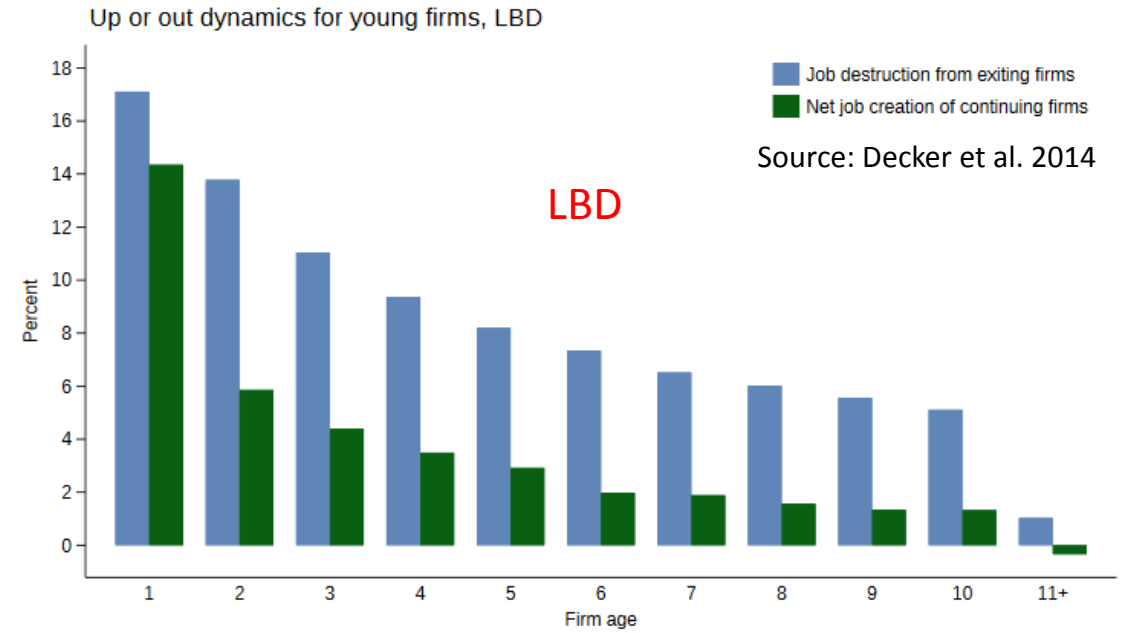
DHS denominator; annual averages from NETS for 1992-2011.

Source: Crane and Decker (2019)

- There is no decline in dynamism in NETS!
- Young firm net job creation is undercounted
  - Omitting imputed observations doesn't help

# Compustat

- Authors are appropriately cautious and transparent

- Keep in mind:
    - Dynamism trends among public firms and everyone else are different (Davis et al. 2007 NBER Macroannual, Decker et al. 2016 EER)
    - Compustat doesn't capture U.S. employment well (Dinlersoz, Hyatt, Kalemli-Ozcan, & Penciakova 2019 working paper)

- I would keep these exercises but be careful about measurement and selection, especially time-varying selection

# Suggestions and conclusions

- A very clever theory that may shed light on "declining business dynamism" and particularly changing entry patterns

- Hard to answer the question with these data; consider an FSRDC proposal for LBD
  - And maybe Revenue-Enhanced LBD if available

# Thanks

# Extra slides

# Theory considerations

- $\alpha$ determines revenue function curvature (broadly speaking)
  - $\alpha$ down ➔ higher "markups" and profit share, lower "responsiveness" of firms to shocks and reallocation
  - $\alpha$ up ➔ "superstar" firms, concentration
  - We have literature saying both of these are happening. What do we think is actually happening behind changing $\alpha$?
- In the (Census) data we observe declining reallocation even within firm age bins; can this be reconciled with the model?
  - Note Decker et al. (2020) working paper show declining reallocation and rising productivity dispersion consistent with rising adjustment costs